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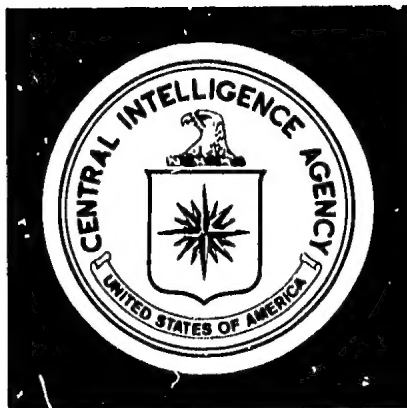
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Economic Intelligence Weekly

Secret

CIA No. 7801/73
20 September 1973

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Note: Comments and queries on the contents of this publication are welcomed. They may be directed to

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ECONOMIC INTELLIGENCE WEEKLY

Notes

Japan Negotiating Direct Oil Purchase with Iraq

The Japanese hope to arrange a large contract with Iraq providing for the delivery of 200,000 b/d of crude oil for 10 years beginning in 1976 plus 275 million cubic feet per day of liquefied petroleum gas over a 15-year period. In return, Japan is prepared to offer Iraq a \$500 million Export-Import Bank loan. During the past year the Japanese have been aggressively lining up long-term supplies of crude oil and already have direct purchase contracts with Abu Dhabi, Saudi Arabia, and Iran. The Japanese, with Baghdad's urging, have been trying to expand their ties with Iraq and ensure their future access to crude oil. In recent months they have gained a part interest in an oil concession and have signed other long-term contracts for delivery of Iraqi propane and butane gas. [REDACTED]

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China May Soon Inaugurate International Air Service

Recent deliveries of 2 of the 10 Boeing 707s ordered by China in 1972 have set the stage for international service by at least early 1974. Since the beginning of 1973, air accords have been signed with the Scandinavian countries, Canada, Greece, and the United Kingdom, bringing to 21 the number of PRC international air agreements. (UNCLASSIFIED)

Soviet Farm Tractors to Be Sold in the United States

The Soviet export organization Traktoroeksport will try to sell wheeled farm tractors in the United States by the end of this year. The tractors, to be handled by Belarus Sales of Canada, Ltd., will be offered in the low- to medium-horsepower range and may be priced as much as 15% below comparable US models. Even with attractive prices, Belarus will have to develop a dependable network of service facilities to find much of a market. [REDACTED]

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International Monetary Developments

The Dutch guilder's recent revaluation, undertaken primarily to dampen domestic inflation, heightened uncertainty in international money markets. The dollar weakened somewhat, as traders shifted into marks and

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Belgian francs in expectation that they would appreciate -- possibly even be revalued -- in the wake of The Hague's decision. Still, the dollar remains significantly stronger than it was in July and early August. Major European central banks are intervening to maintain the joint float, with Bonn and Brussels buying the weaker French francs and Norwegian crowns, and Paris and Oslo selling marks and Belgian francs. The French franc came under particularly heavy pressure on Wednesday. [REDACTED]

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Articles

Foreign Views on Monetary Reform: The Nairobi Meeting

The monetary reform negotiations leading up to the annual IMF meeting in Nairobi have brought some agreement on broad principles but little progress beyond that. For the most part, they have been devoted to discussing the US proposal that changes in international reserves be used as a criterion in determining when national economic policies need to be modified. This issue and the conditions for currency convertibility probably will be considered in the reform discussions.

Paris, as usual, has been the most outspoken critic of US proposals. The French believe that, while many of the world's financial problems are the result of unsound US policies, Washington wants to place the adjustment burden on other nations. Paris also is determined to block any reforms sponsored by the United States or other nations that would reduce national control over economic policy.

Other European nations find solace in parts of the US and French views and will try to mediate between them. The EC, as an entity, will play only a minor role in the reform negotiations.

Japan and Canada also are interested in producing an acceptable US-European compromise on reform. Japan played the arbiter's role at the Tokyo Ministerial meeting. Since the Japanese want to prevent a re-emergence of foreign pressures for further revaluation of the yen, they will join the Europeans in opposing the US adjustment proposal. Ottawa is highly satisfied with its own dollar float and is eager to establish the principle that floating is justified under certain circumstances.

The less developed countries may be a contentious element at Nairobi and in the subsequent negotiations. The oil producers want to make certain that their reserve accumulations will not be penalized. The other LDCs are primarily interested in firmly establishing the SDR-aid link. The question of Taiwan's continued participation in the IMF probably will not arise at Nairobi.

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Soviet Hard Currency Payments Position*

The Soviet hard currency deficit reached a new high of \$1.4 billion in 1972 and may rise to \$2 billion in 1973. To cover its deficits, the USSR has had to borrow heavily and sell large amounts of gold. Although imbalances of this magnitude are temporary, the Soviets face a continuing problem because of sluggish exports and rapidly rising debt service payments. To increase hard currency earnings, Moscow has been seeking export-oriented joint projects with Western countries.

The massive 1972-73 deficits were largely caused by the increase in imports of farm products arising from last year's poor harvest and the growing Soviet demand for quality foods. The 1972 deficit was financed mainly by \$1 billion in credits, including for the first time substantial short- and medium-term Eurodollar loans. Large sales of gold (150 tons) brought in another \$300 million. Gold sales totaled 150 tons during the first half of 1973 and may amount to 150-250 tons during the second half. The proceeds could cover as much as \$1.2 billion of the projected 1973 deficit. The remainder will be financed through credits, including \$400 million in US Commodity Credit Corporation loans.

Although Soviet imports of agricultural products will decline from the record 1972-73 level, pressure on the USSR's hard currency balance of payments will continue. Service payments on the rapidly growing hard currency debt will be about 27% of export earnings this year, compared with only 11% as recently as 1967. Unless export growth accelerates, the USSR may feel constrained to reduce its foreign borrowing and imports. To solve this problem, Moscow is acquiring Western technical and financial assistance for projects that are self-liquidating and will result in large net hard currency earnings. Realization of these earnings may take perhaps a decade. Meanwhile, the USSR probably will sell substantial quantities of gold and may have to curtail import growth as well.

US-Soviet trade has increased much faster than total Soviet trade with the West in the past two years, largely because of US exports of agricultural products. US machinery and equipment exports are also rising. The United States has extended about \$800 million in credits since June 1972 to help finance these exports. Continuing sales of US grain and US participation in major Soviet projects to develop fuels and raw materials will be important factors in increasing US-Soviet trade.

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Worldwide Grain Developments

USSR

A record harvest is still in prospect, even though the Soviet Agriculture Minister expressed concern about the crop [redacted] 25X1
If favorable weather prevails for the remainder of the harvest season, 165 million tons of usable grain should be harvested. Production will fall below 160 million tons if inclement weather reaches the area threshed. The quality of some grain will be low because of wet weather. This problem could lead the USSR to import more milling-quality wheat. At the same time, a 165-million ton harvest would permit the USSR to sell small quantities of feed grains to countries other than its usual customers.

[redacted] 25X1

Yugoslavia

Belgrade estimates that this year's wheat crop was better than expected. The 4.7-million ton wheat harvest was only 3% less than last year's despite a 13% smaller sown area. As a result, wheat imports for FY 1974 are likely to be 300,000 tons, compared with an earlier forecast of 500,000 tons.

[redacted] 25X1

Australia

Australia is projecting 1974 wheat exports at about 8 million tons, compared with an estimated 4.5 million tons this year. Although the harvest does not begin until December, the Wheat Board already has committed 3 million tons to such traditional customers as China, Egypt, Japan, and Chile. The Australians apparently intend to satisfy requirements of their other traditional markets, including the United Kingdom, Malaysia, and Iran, but are reluctant to make additional commitments until the size of the crop becomes clearer. India, which has purchased little wheat from Australia in recent years, has received no commitment as yet in response to its recent request for one million tons as soon as possible.

[redacted] 25X1

India

Badly burned by its experience in taking over the wholesale wheat trade last spring, the government has decided not to nationalize the wholesale rice trade this fall as planned. Farmer resistance and low government prices for wheat have disrupted normal food grain distribution since April and sharply curtailed government procurement of wheat. The lack of government intervention in rice marketing should permit a return to more orderly food grain distribution to urban areas. [redacted] 25X1

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Outcome of the Tokyo Trade Meeting

The "Nixon Round" of Multilateral Trade Negotiations was launched last week when 102 nations unanimously agreed to the "Declaration of Tokyo," pledging their governments' participation in talks aimed at liberalizing world trade. Many difficult issues remain to be resolved, however, concerning non-tariff barriers, agricultural trade, and safeguards, as well as industrial tariffs. The actual bargaining begins on 24 October in Geneva under the auspices of the newly established Trade Negotiations Committee. France and various other countries insist that the United States have negotiating authority before substantive talks begin. The French anticipate that the complexity of the talks will cause them to go on beyond 1975.

The Tokyo participants managed to agree on compromise language covering the thorny issue of the link between trade and monetary negotiations. The EC position that progress in the trade talks depends on progress in the monetary discussions is reflected in the compromise as is the US position that improvements in the trading system are necessary for an improved monetary system.

The final obstacle to agreement in the draft was a dispute over special treatment for the least developed countries. Brazil and Colombia refused to accept language in the declaration that stipulated that these countries would receive special treatment, insisting they would go along with this language only if the wording provided that the special treatment would not adversely affect other developing countries. The two Latin American nations capitulated, however, when it was agreed that their interpretation of the issue would be recorded in the proceedings of the conference.

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**Chile: The Junta Is Beginning to Come to Grips
with the Economic Mess**

As the security situation continues to improve, the Junta is taking steps to correct distribution snarls. Many essential consumer items are reappearing. Striking truckers have returned to work. All of Santiago's grain mills are now operating on a 24-hour basis. Banks have reopened. Distribution of fuel has resumed. Some mining and manufacturing firms are returning to normal operations. The large El Teniente copper mine reportedly has started producing again.

[redacted] it intends to follow conservative economic policies. All firms taken over illegally will be returned to their owners. Most of the companies taken legally will be divested by the government; the workers reportedly will receive 40%-50% of the ownership, while the remainder will be sold to the public. The copper mines presumably will remain under state control.

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[redacted]

Copper exports are expected to be nearly large enough to pay for urgent import needs. The Junta will still require new short- and long-term credits both to finance immediate import needs and to begin rebuilding the economy. The Central Bank is in chaos. Chile's disposable assets reportedly are \$112 million in gold and foreign exchange, including \$30 million earmarked to pay other Latin American Central Banks. [redacted]

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World Iron Ore Developments

Major iron ore exporters -- particularly Australia, India, and Brazil -- have begun mutual efforts to improve their bargaining position against iron ore importers.

- In March and June, Australian and Brazilian officials agreed to exchange market information.
- In July the Australian and Brazilian ministers for minerals and energy met in Australia and discussed a joint pricing policy to offset Japanese efforts to play one producer off against the other.
- India is pressing for a fixed price schedule, especially in cooperation with Australia, India's main competitor in the Far East.

The impetus for producer cooperation stems from a common desire to counter the strong bargaining power of Japan, the world's largest importer of iron ore. Prices paid by the Japanese under long-term contracts had not increased until recently. Last month, Brazilian and Australian companies finally negotiated a 15% price increase -- far below the 26% increase sought.

Although some form of producer cooperation is likely, any agreement probably will exert little pressure on world iron ore prices, in part because Brazil and Australia both plan to expand ore exports sharply. Foreign steel companies, moreover, control most of the iron ore companies, limiting the governments' ability to force price increases.

Japan would be most affected by a producers' agreement, since imports supply 98% of Japanese iron ore needs and Japanese steel companies do not own the mines from which they obtain their ore. Foreign government moves to raise ore prices would have less impact on US steel companies -- the United States imports only 32% of iron ore requirements, almost entirely from company-controlled mines in Canada and Venezuela. Western Europe, which imports 52% of its needs, would be more affected, although European companies own some foreign mines.

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Publications of Interest

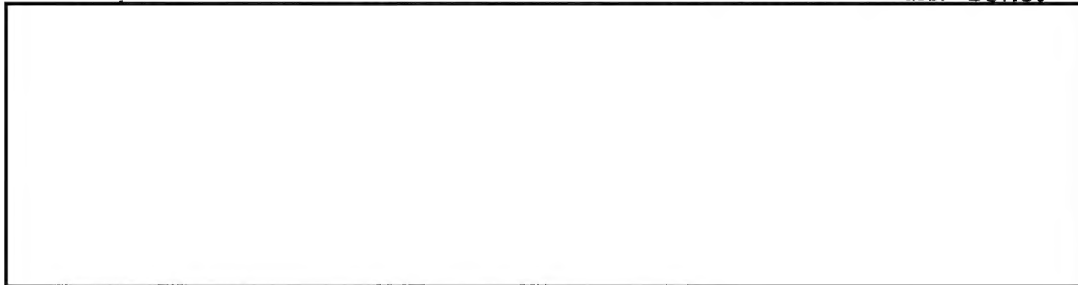
US-Soviet Economic Agreements Since the Summit

(CIA ER IM 73-60, September 1973, [REDACTED])

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Since the May 1972 summit, US firms and the USSR have signed contracts and commercial agreements worth billions of dollars. Soviet

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Foreign Countermeasures to Dollar Depreciation:

A Little-Used Strategy

(CIA ER IM 73-58, September 1973, [REDACTED])

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Foreign countermeasures to offset the impact of the dollar's depreciation on countries' trading positions so far have been minor. The foreign response has been limited to scattered criticism of US policy; a few European and Japanese moves designed to soften and slow the impact, particularly for politically sensitive industries; and in some cases, a tougher stand on trade and monetary reform issues. Reactions generally have been restrained because the effect of the currency changes on the trade performance of the major appreciating currency countries has been small and because burgeoning domestic demand abroad has been adequate to compensate for any losses in foreign sales.

US Economic Interests in Africa

(CIA ER H 73-3, September 1973, [REDACTED])

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This handbook presents key features of US-African trade, US investment in Africa, and US aid to Africa -- text, detailed statistical tables by region and country, and data sheets for each of 23 African countries that together account for 95% of US trade with Africa.

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DOMESTIC ECONOMIC INDICATORS

GNP*						WHOLESALE PRICES									
(Constant Market Prices)						(Industrial)									
		Percent Change		Average Annual				Percent Change		Average Annual					
		from Previous		Growth Rate Since				from Previous		Growth Rate Since					
Latest Period		Period		1870		1 Year Earlier		3 Months Earlier		1870		1 Year Earlier		3 Months Earlier	

INDUSTRIAL PRODUCTION*

United States	Aug 73	0.4	6.0	10.6	10.5
Japan	Jul 73	-0.4	8.7	19.2	9.9
West Germany	Jun 73	-2.8	3.7	6.7	0
France	Jun 73	-1.5	7.1	8.9	0
United Kingdom	Jun 73	0.4	3.9	10.4	-1.4
Italy	Jun 73	-1.0	2.9	10.2	31.7
Canada	Jul 73	0.1	6.9	10.7	4.4

CONSUMER PRICES

United States	Jul 73	0.2	4.4	5.7	6.3
Japan	Jul 73	0.7	7.3	11.9	11.0
West Germany	Aug 73	-0.1	5.8	7.2	2.5
France	Jul 73	0.8	6.2	7.4	10.6
United Kingdom	Jul 73	0.4	8.5	9.4	7.0
Italy	Jul 73	0.6	7.2	11.8	12.6
Canada	Aug 73	1.3	5.4	8.3	13.0

RETAIL SALES*

(Current Prices)

United States	Aug 73	0.3	11.8	12.4	11.4
Japan	May 73	0.5	11.9	21.3	15.0
West Germany	Jul 72	-1.8	8.4	6.4	-7.0
France	May 73	6.7	5.3	13.4	8.5
United Kingdom	May 73	0.8	9.8	11.1	-14.0
Italy	Feb 73	9.0	11.5	18.8	24.1
Canada	Jun 73	0.5	10.4	10.4	-0.3

MONEY SUPPLY*

United States	Aug 73	0.4	7.7	6.8	8.2
Japan	Jun 73	0.6	18.7	28.9	16.1
West Germany	Jul 73	-3.4	9.0	3.1	-21.5
France	Mar 73	1.2	12.7	10.4	-2.1
United Kingdom	Jul 73	2.3	12.2	13.0	12.9
Italy	Mar 73	1.0	19.9	18.3	-3.7
Canada	Jul 73	1.4	13.8	15.9	15.5

MONEY-MARKET RATES

MONEY-MARKET RATES		Percent Rate of Interest				
		Latest	12 Months Earlier	3 Months Earlier	1 Month Earlier	
Representative Rates						
United States	Prime finance paper	Sep 14	9.00	4.75	7.50	8.50
Japan	Call money	Sep 8	8.50	4.25	8.60	7.50
West Germany	Interbank loans (3 months)	Sep 7	14.25	5.00	12.63	14.25
France	Call money	Sep 7	9.12	3.82	7.62	8.89
United Kingdom	Local authority deposits	Sep 14	13.13	4.83	7.38	12.75
Canada	Finance paper	Sep 14	8.83	5.25	6.88	7.88
Euro-Dollars	Three-month deposits	Sep 14	11.44	5.58	8.75	11.58

*Seasonally Adjusted

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EXTERNAL ECONOMIC INDICATORS

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since		
			1970	1 Year Earlier	3 Months Earlier
EXPORT PRICES (US \$)					
United States	Jul 73	2.2	7.3	18.8	31.5
Japan	Jul 73	1.7	12.3	23.3	20.4
West Germany	Jun 73	4.7	13.2	22.7	42.8
France	Apr 73	-0.8	12.1	15.8	58.0
United Kingdom	Jul 73	-0.9	10.8	15.1	20.3
Italy	Apr 73	0.9	8.2	9.8	24.7
Canada	May 73	0.7	5.8	10.2	21.6

EXPORT PRICES
(National Currency)

United States	Jul 73	2.2	7.3	18.8	31.5
Japan	Jul 73	1.3	1.8	8.0	17.8
West Germany	Jun 73	-2.2	0.8	-0.2	-3.7
France	Apr 73	-0.4	4.8	4.8	6.8
United Kingdom	Jul 73	1.1	8.7	11.4	12.2
Italy	Apr 73	2.8	5.7	10.4	28.0
Canada	May 73	0.5	4.4	11.4	21.4

IMPORT PRICES
(National Currency)

United States	Jul 73	1.7	10.1	18.2	15.1
Japan	Jul 73	4.0	5.0	24.0	48.5
West Germany	Jun 73	-1.8	0.1	3.3	3.2
France	Apr 73	2.4	3.3	5.0	1.0
United Kingdom	Jul 73	3.3	12.2	31.7	39.7
Italy	Apr 73	3.3	8.5	18.7	49.2
Canada	May 73	1.4	4.7	8.9	26.8

OFFICIAL RESERVES

	Latest Period End of	Billion US \$		
		Jun 1970	1 Year Earlier	3 Months Earlier
United States	Jul 73	14.0	18.3	13.1
Japan	Aug 73	15.1	4.1	18.4
West Germany	Aug 73	37.9	8.8	24.8
France	Aug 73	10.3	4.4	10.0
United Kingdom	Aug 73	8.5	2.8	8.1
Italy	Jun 73	8.0	4.7	8.4
Canada	Aug 73	5.8	4.3	8.2

*Seasonally Adjusted

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EXPORTS*
(f.o.b.)

Latest Period	Million US \$	Cumulative (Million US \$)	
		1973	1972
United States	Jul 73	5,888	Jan-Jul 38,158
Japan	Aug 73	2,880	Jan-Aug 22,832
West Germany	Jul 73	8,002	Jan-Jul 35,918
France	Aug 73	3,158	Jan-Aug 23,451
United Kingdom	Aug 73	2,522	Jan-Aug 18,839
Italy	Jun 73	1,837	Jan-Jun 9,479
Canada	Jul 73	2,071	Jan-Jul 14,054

IMPORTS*
(f.o.b.)

Latest Period	Million US \$	Cumulative (Million US \$)	
		1973	1972
United States	Jul 73	5,782	Jan-Jul 38,881
Japan	Aug 73	2,922	Jan-Aug 19,428
West Germany	Jul 73	4,807	Jan-Jul 28,018
France	Aug 73	3,148	Jan-Aug 22,838
United Kingdom	Aug 73	3,010	Jan-Aug 21,417
Italy	Jun 73	2,212	Jan-Jun 10,720
Canada	Jul 73	1,948	Jan-Jul 13,055

TRADE BALANCE*
(f.o.b./f.o.b.)

Latest Period	Million US \$	Cumulative (Million US \$)	
		1973	1972
United States	Jul 73	107	Jan-Jul -703
Japan	Aug 73	-42	Jan-Aug 3,202
West Germany	Jul 73	1,395	Jan-Jul 7,902
France	Aug 73	13	Jan-Aug 814
United Kingdom	Aug 73	-425	Jan-Aug -2,778
Italy	Jun 73	-275	Jan-Jun -1,241
Canada	Jul 73	125	Jan-Jul 999

EXCHANGE RATES (Spot Rate)

	US \$ Per Unit	Percent Change from			
		Dec 66	18 Dec 71	19 Mar 73	7 Sep 73
As of 14 Sep 73					
Japan (Yen)	0.0038	38.48	15.95	-1.00	-0.11
West Germany (Deutsche Mark)	0.4100	83.09	32.13	15.79	-0.73
France (Franc)	0.2333	15.55	18.49	5.85	0.58
United Kingdom (Pound Sterling)	2.4108	-13.81	-7.47	-2.04	-0.42
Italy (Lira)	0.0018	10.37	2.73	-0.17	-0.28
Canada (Dollar)	0.9907	7.40	-0.71	-0.70	-0.18

TRADE-WEIGHTED EXCHANGE RATES

	Percent Change from			
	Dec 66	18 Dec 71	19 Mar 73	7 Sep 73
As of 14 Sep 73				
United States	-18.59	-9.04	-2.25	0.08
Japan	23.10	9.08	-2.98	-0.82
West Germany	32.32	15.27	10.23	-0.60
France	-11.77	1.45	-0.98	0.93
United Kingdom	-35.54	-21.29	-6.86	-0.52
Italy	-15.88	-14.47	-7.65	-0.07
Canada	3.59	-2.94	-1.28	-0.15

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